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**SEMIANNUAL REPORT TO CONGRESS**

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## **EXECUTIVE SUMMARY**

During this semiannual reporting period, the Office of Inspector General (OIG) performed reviews and offered comments on drafts of two major agency documents: the five year Strategic Plan and Annual Performance Plan for Fiscal Year 1999. Management addressed many of our concerns through revisions to the documents prior to submission to the Office of Management and Budget and the Congress in September. We also questioned the expenditure of agency funds for an executive search firm to assist in filling the vacant Chief Information Officer position.

The Office of Audit completed 12 new audit reports and reviews. Seven reviews resulted in recommendations requiring action by benefit program personnel and five focused on administrative operations including information systems. The Office of Investigations achieved 46 criminal convictions, 23 civil judgements, 26 indictments/informations, and \$932,926 in monetary accomplishments.

A settlement of a complaint against the previous Inspector General (IG), William J. Doyle III, has been reached. Under the terms of the settlement, Mr. Doyle will make payment of \$35,000 to the government. This case was initiated in October 1994 by the General Accounting Office and subsequently referred to this office. Our investigation identified evidence of misconduct, abuse of office and criminal allegations. The previous IG fraudulently used frequent flyer credits, submitted false claims and statements on travel vouchers, failed to return government equipment, including firearms and ammunition, and made substantial personal use of government funded telephones. We referred the case to the Civil Division of the U.S. Attorney for the Northern District of Illinois which handled the case and reached the settlement.

## **PART I - INTRODUCTION**

### **PURPOSE OF THE SEMIANNUAL REPORT**

The Inspector General Act of 1978 (Public Law 95-452, as amended) established Offices of Inspectors General to promote economy, efficiency, and effectiveness, and to prevent and detect waste, fraud, and abuse in a variety of government programs and operations. This legislation established independent statutory Inspectors General who have the authority to conduct audits, investigations and management studies of agency programs and operations.

The Railroad Retirement Solvency Act of 1983 (Public Law 98-76) established the Office of Inspector General (OIG) at the Railroad Retirement Board by naming the agency as "one of such establishments" identified under Section 2 of the Inspector General Act of 1978. The Inspector General Act Amendments of 1988 (Public Law 100-504) added the RRB to the list of agencies covered by the Inspector General Act. In January 1986, the first Inspector General was appointed at the Railroad Retirement Board.

The Inspector General must submit semiannual reports to the Chairman of the Railroad Retirement Board and to the U.S. Congress. This dual reporting requirement helps to ensure the public disclosure of program weaknesses as well as OIG independence. The Inspector General Act of 1978, as amended by the Inspector General Act Amendments of 1988, specifies the information to be included in semiannual reports.

## **THE RAILROAD RETIREMENT BOARD**

The Railroad Retirement Board (RRB) is an independent agency in the Executive Branch of the Federal government that is headed by a three member Board appointed by the President of the United States, with the advice and consent of the U.S. Senate. The Board Members' terms of office are five years with different expiration dates. The RRB's primary function is to administer comprehensive retirement-survivor and unemployment-sickness insurance benefit programs for the nation's railroad workers and their families. These programs are provided under the Railroad Retirement Act and the Railroad Unemployment Insurance Act. In addition, the RRB has administrative responsibilities under the Social Security Act for certain benefit payments and Medicare coverage for railroad workers.

During fiscal year (FY) 1996, the RRB paid \$8 billion in retirement and survivor benefits to approximately 818,000 beneficiaries, while net unemployment-sickness insurance benefits of \$66 million were paid to almost 36,000 claimants. The RRB also administers its own Medicare Part B program through a single carrier, United HealthCare Corporation. The carrier made payments totaling \$693 million to 684,000 persons.

## **PART II - SIGNIFICANT ISSUES**

### **Settlement of Complaint Against the Previous Inspector General**

Shortly after his appointment as Inspector General (IG) in October 1994, Martin J. Dickman was contacted by the General Accounting Office concerning an anonymous complaint about the previous Inspector General, William J. Doyle III. He immediately initiated an internal investigation which identified evidence of misconduct, abuse of office and criminal allegations. The previous IG had been permitted to assume temporary residence in Florida for four years.

The investigation determined that, during this time, the previous IG had made (a) fraudulent use of frequent flyer credits, (b) false claims and statements on travel vouchers, and (c) substantial personal use of five government funded residential and cellular telephones that were meant for business use. Government equipment, including five firearms and 5,000 rounds of ammunition which were shipped to the previous IG, was not returned to this office following his retirement in April 1994.

This office submitted the case to the Public Integrity Section of the Department of Justice for criminal prosecution in April 1995. Almost two years later, no disposition appeared to be forthcoming by the Public Integrity Section, and any potential civil recoveries against the previous IG were soon to expire under the statute of limitations. The case was then submitted to the Civil Division of the Office of the U.S. Attorney for the Northern District of Illinois. The Deputy of the Civil Division personally handled the case and negotiated a reasonable settlement. Under the terms of the settlement agreement, the previous IG will pay the government \$25,000 now, and an additional \$10,000 over the next five years.

### **RRB Strategic Plan and Fiscal Year (FY) 1999 Annual Performance Plan**

During this semiannual reporting period, the OIG performed a review of the agency's draft strategic plan. The purpose was to ensure that the plan was in compliance with the Government Performance and Results Act and Office of Management and Budget guidance in Circular A-11. The agency was required to submit a five year Strategic Plan for 1997-2002 by September 30, 1997 and an Annual Performance Plan for FY 1999 was included with the RRB's FY 1999 Budget Submission.

Our evaluation indicated that a number of items required clarification. In addition, we provided management with a list of significant information, related to previous performance agreements, customer service standards and performance measures in annual financial statements, that should be included in the final plan. As a result, management addressed our concerns by effecting changes to either the Strategic Plan and/or the Annual Performance Plan for FY 1999.

We also offered comments on the agency's Annual Performance Plan for FY 1999. Our recommended changes focused on three areas:

1. the lack of goals for improvement; most performance levels appeared to be at the status quo;
2. the lack of any plans to alter the manner of conducting business as a result of the declining number of customers; and,
3. the lack of goals expressed as quantitative standards, values or rates.

Management elected not to implement these changes. We are currently conducting a formal audit to evaluate the above weaknesses and offer additional recommendations for improvement.

### **Use of Executive Search Firms**

In October 1995, the RRB hired a Chief Information Officer (CIO) to direct critical information systems operations and to ensure the agency's systems are "Year 2000" compliant. Twelve months later, the CIO resigned and the agency sought to fill the position.

In March 1997, the Board Members approved \$40,000 for a contract with an executive search firm to assist in filling the vacant CIO position. At that time, the OIG questioned the benefit of such a contract and recommended that the agency not enter into such a contract on the grounds that the funds could be put to better use elsewhere. The agency did not respond to our recommendation and proceeded with the procurement.

We reviewed the contract prior to its implementation to determine compliance with the Code of Federal Regulations (CFR) which limits the use of commercial recruiting firms. The CFR requires commercial recruiting firms to serve only as an additional source of applicants and requires the agency to evaluate and appoint applicants through regular civil service procedures. Because the contract appeared to delegate functions required to be performed by the agency, we recommended that corrective action be taken. The agency then modified the contract.

The agency has never demonstrated a convincing argument for the use of a commercial recruiting firm. The agency search for candidates in 1995 yielded 138 candidates for the position, of which 49 were deemed qualified and 8 "highly qualified." The OIG believes that the agency is entirely competent to conduct this search without the assistance of a contractor.

The expenditure of \$40,000 for this purpose becomes more questionable given the recent selection of an individual from within the Federal community.



## **PART III - OFFICE OF AUDIT**

### **Mission**

The Office of Audit (OA) conducts reviews to: (1) promote economy, efficiency, and effectiveness in the administration of RRB programs and (2) detect and prevent waste, fraud and abuse in such programs. Through the Inspector General, this office ensures that the Board Members and the U.S. Congress are informed of current and potential problems in the RRB's operating programs, and advised of recommended improvements, as well as the status of corrective actions.

OA is divided into two operating divisions corresponding to the two main organizational components of the RRB: (1) Programs (operations related to the payment of benefits), and (2) Administration (administration, financial operations and information services). During this reporting period, OA issued twelve reports: six audits and one management information report concerning program benefit activities, and five audits related to RRB administrative, financial and information systems functions.

### **REPORT SUMMARIES - PROGRAMS**

#### **Review of Employment Data Maintenance Suspended Transactions**

The Employment Data Maintenance (EDM) System is an automated system that contains historical service and compensation information for each person who has ever worked for an employer covered by the Railroad Retirement Act. Employers provide the RRB with annual reports of their

employees' creditable service and compensation, and may also submit adjustment reports during the year.

Implemented in 1991, EDM replaced two previous files which were used to maintain this information. When the files were converted to the EDM database, over 34,000 records could not be added because of data inconsistencies or errors. As the result of a 1991 audit, we recommended that management develop a plan for correcting the unposted transactions. Although a target date for completing the plan was set, no implementation program was developed. When we conducted this audit, the RRB also had an inventory of about 2,000 transactions that had not been posted to the EDM system. Many suspended transactions have been unresolved for several years. It is critical that information is posted in a timely manner to ensure benefit payments are correctly calculated for new applicants for retirement.

**Recommended Action:** The Office of Programs should take action to ensure all unposted transactions are resolved. Management should establish procedures to use a personal computer program to control and resolve suspended transactions in a timely manner. It is also important to followup on requested programming changes necessary to produce reports for effectively managing the suspended transaction workload. Program personnel are developing a plan to resolve the unposted transactions and are taking corrective action to address the remaining recommendations.

### **Review of the Railroad Retirement Board's Compliance with Electronic Payment Requirements**

The Federal Financial Management Act of 1994, as amended by the Debt Collection Improvement Act of 1996, requires that

Federal agencies make all payments electronically by January 1, 1999. Such payments include Federal wages, salaries, retirement benefits, vendor and expense reimbursements, and beneficiary payments. This requirement may be waived at the discretion of the agency head if an individual provides a written request certifying that he or she does not have an account at a financial institution or an authorized payment agent. After January 1, 1999, only the Secretary of the Treasury may grant waivers.

The RRB currently obtains direct deposit information when annuitants apply for benefits, employees are hired and vendors are contracted for services. The RRB has revised some benefit applications, and continues to revise paper and on-line application forms to include sections on direct deposit. The agency currently withholds payments to an applicant until direct deposit information is provided. As of December 1996, 95% of RRB employees were receiving their wages by direct deposit. Vendor participation in the new program will be the most troublesome. At present, if a vendor refuses to comply, the RRB has few options available. The General Services Administration will have to change its criteria for vendor approval to include payment by direct deposit.

**Recommended Action:** Management should establish prompts on current computer screens and forms as reminders to contact representatives to obtain direct deposit information. Management has subsequently added the recommended prompts and plans to complete changes to the appropriate forms by December 31, 1997.

### **The Railroad Retirement Board Disability Review Program**

The RRB pays disability benefits to railroad employees and their survivors who are totally and permanently disabled, and to employees who are disabled from performing their regular railroad occupation. Disability annuities are awarded based upon the medical evidence submitted with the application, the results of any additional consultative medical examinations and vocational evidence. In fiscal year 1996, the agency paid about \$1.3 billion in disability benefits to 95,800 disability annuitants.

The Railroad Retirement Act requires the RRB to conduct periodic disability reviews to verify that the annuitants are still disabled. The RRB is required to conduct reviews every 6 to 18 months when medical improvement is expected; every 3 years when medical improvement is possible; for an administrative appeal case, and every 5 to 7 years when medical improvement is not expected. However, this audit indicated that the RRB is not in compliance with Federal requirements because it has failed to meet the frequency standards.

**Recommended Actions:** The RRB's Office of Programs should develop disability review procedures that comply with Federal regulations or propose revised guidelines. Timeliness standards should be developed for completing reviews, and action should be initiated to eliminate the sizeable backlog of disability reviews. Management should implement a database system to monitor timeliness of the disability review process and to gather statistical data for analysis of the reviews.

Program managers agreed with all report findings and recommendations, and have taken steps toward their implementation.

### **Prepayment Verification Period Pilot Program**

A primary function of the RRB is to pay unemployment and sickness insurance benefits to railroad workers. Under the experience rating provisions of the Railroad Unemployment Insurance Act, each railroad employer's contribution rate is related to the amount of unemployment and sickness benefits paid to its employees. The RRB must notify railroad employers of claims filed for benefits. The agency developed procedures allowing seven calendar days for railroad employers to submit information before the RRB decided to pay or deny benefits (prepayment verification period).

On September 15, 1995, the RRB approved a reduction in the prepayment verification period to three business days as a one year pilot program for calendar year 1996. RRB management requested that the OIG review the program's results and determine if any change in the number of incorrect benefit payments resulted from the reduction in the prepayment verification period. In response to concerns of the RRB Chairman, we determined that most railroad employers were not responding within the original seven day period, and the reduction had no impact on their responses. Results also indicated that the RRB has operated the prepayment verification program efficiently and effectively to prevent improper benefits payments. Program benefits have exceeded program costs, although limitations of the RRB's Cost Accounting System prevented the determination of precise cost amounts. The system did not accurately separate prepayment verification costs from other program integrity activity costs.

**Recommended Action:** Program managers should determine if reporting individual program integrity activities is desirable. If so, they should develop an accurate system for tracking and

reporting information. Management agreed with this recommendation and have directed program staff to streamline the codes used for the Cost Accounting System.

### **Review of Duplicate Postings of Railroad Compensation**

Railroad employers submit annual reports of employee railroad compensation and other information regarding the amount and creditability of service and compensation covered under the Railroad Retirement Act. Railroad employers also provide data on railroad compensation and social security wages to the Social Security Administration (SSA).

In some cases, railroad employers fail to correctly identify earnings as railroad compensation when they report employee earnings to the SSA. The SSA then processes railroad compensation as SSA wages and passes this incorrect information to the RRB. Because the RRB independently posts railroad compensation based on reports received directly from the railroad employers, there are duplicate postings of the same earnings, referred to as duplicate earnings. These duplicate earnings can result in benefit overpayments if not identified. The RRB cannot change wage information provided by the SSA; the SSA must make the corrections.

**Recommended Action:** The RRB's Office of Programs should update its procedures for (1) the annual computer match of records with railroad compensation and SSA wages that are equal or within one dollar; (2) the subsequent update of the duplicate earnings table that identifies railroads and the year(s) in which the duplicate earnings occurred; and (3) the procedures for duplicate earnings referrals. The RRB's computer system designed to identify duplicate earnings should be reprogrammed

to eliminate unnecessary interruptions to mechanical processing.

Management concurred with all report findings and will revise procedures. Recommended changes to the computer system will be delayed until Year 2000 efforts are completed.

### **Review of the Medical Services Contract**

The Disability and Medicare Operations Division administers the RRB's disability program. Claims examiners are responsible for evaluating medical evidence submitted in support of annuity applications, obtaining additional medical evidence, and making the determination to award or deny benefits. Examiners seek the opinion of medical consultants as necessary to assist them in making a determination on claimed disabilities. The QTC Medical Group is currently under contract to render advisory medical opinions. Claim files are shipped to QTC headquarters in Diamond Bar, California with requests for opinions on specific aspects of medical development. During FY 1996, QTC provided 8,082 opinions at a cost of \$327,321.

We conducted this review to ensure the contractor is in compliance with contract provisions governing the timeliness of medical opinions and the physical security of claim files. During FY 1996, QTC provided 69% of its opinions within the required eight business days. In the first four months of FY 1997, this figure increased to 80%. Division managers had not reported the unsatisfactory performance to higher levels of management.

We also identified weaknesses in QTC's security and claim file tracking procedures. Security provisions of the contract were not being met.

**Recommended Action:** Program managers should develop and implement a plan for corrective action to improve contractor compliance. Periodic on-site evaluation of contractor operations should be conducted to ensure security provisions are fully met. Management officials are now working with the RRB's contracting officer to address all report recommendations.

### **Investigative Referrals**

This limited scope review examined the effectiveness of current agency practices in identifying overpayments in which fraud may be present. Current administrative policy requires the referral of matters that involve criminal activity, fraud, waste, abuse or other wrongdoing. Cases with payments made after an annuitant's death are automatically referred to the OIG for investigation. Agency program integrity initiatives routinely result in referrals based on monetary thresholds. All other cases require a case by case assessment against criteria for fraud determination as established in agency procedure.

A review of 382 retirement overpayments identified 122 cases that contained indications of fraud that agency personnel had not referred to the OIG for investigation. These potential fraud cases had an original value of \$5.8 million. Ninety-three per cent of these overpayments resulted from causes other than the death of the annuitant.

**Recommended Action:** To ensure consistency and effectiveness in the referral of potential fraud cases, the RRB should provide training in fraud identification and referral procedures to responsible staff. Management should also direct staff to immediately refer every overpayment of \$10,000 or more to the OIG for a fraud determination. Agency corrective action is underway.



## **REPORT SUMMARIES - ADMINISTRATION**

### **Review of the RRB's Information Technology Investments**

Public Law 104-106, the Information Technology Management Reform Act, was enacted in February 1996 and became effective in August 1996. The Act reforms acquisition laws and information technology (IT) management in the Federal government. The budget for IT investments in FY 1997 was \$23.5 million of the RRB's total budget of \$87.7 million. The agency's Automated Data Processing Steering Committee functions independently to ensure IT investments are justified and appropriate. The Committee is responsible for approving and monitoring major IT investments.

We reviewed current policies and procedures and determined that the RRB is in compliance with the new legislation on several issues. However, although the goals have been established for improving service through the use of IT investments, the agency has not completed linking budget, financial and program management decisions with its Strategic Plan, Strategic Information Resource Management Plan and IT Capital Plan. We identified improvements which are needed to ensure the agency is in full compliance with the law.

**Recommended Action:** The Committee should: (1) use performance measurements for IT investments; (2) specify that major project service requests should be linked with agency strategic goals, and (3) ensure that the ADP Standards and Procedures specify that post-implementation reviews be conducted for major systems development projects or for major IT investments. The Committee should also take steps to increase the effectiveness of the approval process for IT investments.

Program managers agreed with all report recommendations and have initiated corrective actions.

### **Review of Data Control Function**

The Bureau of Information Services (BIS) plans, directs and coordinates the Information Resources Management Program, which includes managing the agency's computer systems. The bureau's data control function is responsible for controlling all work that enters or leaves the data center. Such work includes internal programming requests, paper documents sent to the RRB's data entry contractor, and magnetic media submitted by railroad employers, banks and the data entry contractor.

We conducted this audit review to determine if (1) the amount of paper documents and magnetic media submitted to the data control staff could be reduced or more efficiently processed, and (2) improvements could be made in the distribution of computer data. Our review indicated that, although the RRB has made improvements in this area, additional actions could significantly reduce the current level of paperwork.

**Recommended Action:** An Automated Output Management System, which would provide many benefits including improved timeliness and increased data security, should be implemented. The agency should improve its data entry practices by increasing the use of magnetic media and electronic data interchange, reducing paper reporting forms used by railroad employers and eliminating paper computer work requests used by RRB offices.

After completing an evaluation of the Automated Output Management System, BIS management is recommending purchase of such a system. In addition, in order to reduce paper forms, officials will establish a threshold of 250 items for

electronic reporting by railroad employers. This threshold level is the same as that used by the Internal Revenue Service and the Social Security Administration.

### **Review of Database Function**

The RRB uses two functions for the management of its data and databases: a data administration function and a database administration function. The data administration function is responsible for the strategic planning of data elements, their usage and definition. The database administration function consists of three groups: (1) the database administrator who acts principally as a technical consultant to information services management, (2) systems database administrators who handle installation, security, performance and backup recovery, and (3) applications database administrators who are responsible for database design and work closely with programmers in developing application databases.

This review found that the agency effectively manages both functions and has established clear and proper separation of duties between them. However, current standards and procedures relating to these functions such as access privileges, current responsibilities of staff and organizational structure should be revised. We also identified weaknesses in the data element approval process.

**Recommended Action:** The data administrator should use the Integrated Data Dictionary as the sole source of information when approving data elements. The administrator's reliance on an incomplete PC database increases the risk of data redundancy and questionable data integrity. The ADP Standards and Procedures Manual should include clear procedures and type of data elements that must be sent to the

data administrator for approval. The Manual should also contain accurate information on the responsibilities and organization of data and database administration staff.

Management agreed with the report findings and plans to complete all corrective actions by March 31, 1998.

### **Review of Overpayments - SSA Transfer Cases**

The RRB pays monthly social security benefits on behalf of the Social Security Administration (SSA) to individuals who qualify as defined by the Railroad Retirement Act. When the RRB receives notice of death of an annuitant, the agency stops the payment of social security benefits. However, the agency must continue to pay railroad retirement benefits to the surviving spouse until the issue of jurisdiction is resolved. While jurisdiction remains open, it is not unusual that an overpayment of railroad benefits develops in those cases that are eventually transferred to SSA.

This audit examined the RRB's procedures for handling overpayment of cases with SSA jurisdiction. A statistically valid sample of SSA transfer cases indicated that the RRB has been successful in collecting this type of debt. Our review identified a relatively small amount of individual debts, a shorter length of time these debts represented, and an effective automated debt collection process. To increase the efficiency and likelihood of collection, the RRB must act quickly and decisively. The older the debt, the more difficult it becomes to collect. We did make recommendations to improve the efficiency of collection efforts.

**Recommended Action:** The RRB should further automate the debt collection process for SSA transfer cases and study the results of the Treasury Offset Program to determine the

collection success rate for this type of debt. (The Treasury offset provision allows an agency owed a debt to collect from another agency's payment to the same individual.)

The Chief Financial Officer agreed to monitor the success of the Treasury Offset Program. He has also requested development of automated processing for all non-death termination cases. The process will automate the calculation of a debt and the establishment of a receivable for debts caused by the transfer of jurisdiction to SSA.

### **Review of the Railroad Retirement Board's Training Program**

Section 4103 of Title 5 of the U.S. Code provides that the head of each agency shall establish, operate and maintain a program and plan for the training of employees. The objectives of this review were to determine if the RRB has established an effective plan and/or program to meet the training needs of the agency, and whether training is properly documented by the agency.

This audit indicated that the RRB has established appropriate programs and plans for the training of employees. Employees received training based on their position and the availability of funds. In addition, the agency has taken steps to improve its training by using videotape and interactive computer programs.

The review also identified that the RRB does not use a consistent policy for tracking training among all bureaus and offices, and, as a result, there is no reliable central source of information. Each organizational unit is responsible for updating the Tesseract System, a mainframe human resource management application. However, personal computer programs are frequently used because information is immediately available while Tesseract reports must be requested from the Bureau of

Personnel. As a result, the Tesseract system does not provide an accurate central source of training information.

**Recommended Action:** The RRB should develop formal procedures for using the Tesseract System. Detailed instructions which clarify the type of training, the steps for entering the data, the time frames required and the data elements necessary for submitting reports should be included.

The Director of Personnel agreed with the need for updated procedures and plans to issue a revised instructional booklet by December 31, 1997.

## AUDITS: MANAGEMENT DECISIONS AND IMPLEMENTATION

Through a Memorandum of Understanding, the Director of Administration transferred the responsibility for managing the open audit follow-up system to the Office of Inspector General. This system tracks the status of corrective actions for all audit recommendations. Procedures are in place to ensure that the agency is in compliance with all applicable regulations. Office of Management and Budget Circular No. A-50 (Revised) and the Inspector General Act Amendments of 1988 require the reporting of management decisions and corrective actions for all audit recommendations.

### Management Decisions

Recommendations requiring a management decision on April 1, 1997	3
New recommendations issued during this period	
pending a management decision	0
Previous recommendations for which a management	
decision was made	<u>- 0</u>
Number of recommendations pending a management decision	
on September 30, 1997	<u>3</u>

### Corrective Actions

Prior recommendations requiring action on April 1, 1997	143
New recommendations issued during this 6 month reporting period	56
Recommendations for which corrective actions	
were completed from April 1 - September 30, 1997	<u>- 60</u>
Recommendations pending final action	
September 30, 1997	139

## **PART IV - OFFICE OF INVESTIGATIONS**

### **Mission**

The Office of Investigations (OI) focuses on RRB benefit program fraud. OI's primary objective is to identify, investigate, and refer for prosecution and monetary recovery action, cases of waste, fraud and abuse in RRB programs. Through its investigations, OI also seeks to prevent and deter program fraud. In order to maximize the effect of its resources, OI continues to pursue cooperative investigative activities and coordination with other Inspectors General and law enforcement agencies, which include the Social Security Administration-Office of Inspector General (SSA-OIG), the Federal Bureau of Investigation (FBI), the U.S. Secret Service, the Internal Revenue Service, the Postal Inspection Service and the Defense Criminal Investigative Service.

### **Operational Issues**

In April 1997, the Board Members approved a policy order concerning debt collection. The new policy directs agency personnel to pursue the collection of debts concurrently with independent OIG investigations which are based on criminal fraud allegations. Such allegations also form the basis for the debts.

Prior to the Board's decision, the OIG provided comments to management to voice opposition to the proposed policy. The revised procedure will result in duplicate and competing due process procedures for the same fraudulent activities and debts. The new process can result in a debtor pursuing an administrative appeal through the RRB while the OIG is conducting its criminal investigation of the matter. Once the investigation is completed, it is referred to the Department of Justice (DOJ) for prosecution. While



the judicial due process does not begin until the referral is made to DOJ, it certainly can be impacted by actions and decisions made during the administrative appeal process handled by the agency.

The OIG's experience with DOJ indicates that continuing administrative action while pursuing a criminal investigation decreases the likelihood of successful prosecution. Further, reducing the number of successful prosecutions will certainly have an adverse effect on the fraud and abuse controls which are necessary to maintain the integrity of agency programs and ensure the viability of its trust funds.

The RRB implemented this policy during this semiannual reporting period. The OIG has already found instances which demonstrate the inefficiency and confusion which result from such a policy. There have been several instances in which an individual received both a notification of debt letter from the agency and a letter from a U.S. Attorney advising that he or she is the target of a Federal prosecution. The agency's policy requires that all debt collection activities be discontinued once a matter has been referred to the DOJ. When an individual receives these separate notifications, the debtor/prosecution target does not know to which government agency that he or she must respond under these circumstances.

If the individual enters into an agreement with the RRB concerning repayment of the debt, the U.S. Attorney is very unlikely to pursue prosecution of the matter. This conclusion sends a definite message to those who would defraud the RRB. If they are detected, they need only agree to repay the money to avoid any punishment. By prosecuting these individuals, the courts can apply criminal sanctions or civil penalties to create a deterrent against future fraud.

The new policy also ignores the benefits of having a criminal or civil judgement in place for purposes of ensuring the RRB can collect a debt. The agency obtains a signed agreement from a debtor who is willing to repay the amount owed. However, should the debtor refuse to make payments or attempt to elude making payments by filing for bankruptcy, the agreement is not enforceable. Only a restitution order or civil judgement can ensure repayment.

**ACCOMPLISHMENTS**

During this semiannual reporting period, OI achieved 46 criminal convictions, 23 civil judgements, 26 indictments and informations, and \$932,926 in monetary accomplishments.

	<b>04/01/97 - 09/30/97</b>	<b>FY 1997</b>
Convictions	46	89
Civil Judgements	23	46
Indictments/Informations	26	42
Investigative Recoveries & Savings	\$ 137,941	\$ 275,629
Restitutions and Fines	\$ 533,046	\$ 1,157,274
Civil Damages and Penalties	\$ 261,939	\$ 5,485,989
Community Service Hours	540	770
Disciplinary/Administrative Action	0	1
Complaints	20	35
Arrests	10	28
Subpoena Service: Inspector General Federal Grand Jury	16 18	45 23
Formal Written Requests	0	0
Program Fraud Civil Remedies Act Referrals	0	0
U.S. Attorney Referrals	444	564

**INVESTIGATIVE CASES**

During this semiannual period, OI opened 254 investigations and closed 308 cases. The major sources of case referrals are illustrated below.

Contains Data for  
Postscript Only.

OI's current caseload is approximately 1,100 criminal matters, representing over \$7.8 million in fraud against the RRB. A breakdown of the cases by RRB program area is provided in the table below.

Contains Data for  
Postscript Only.

### **AFFIRMATIVE CIVIL ENFORCEMENT (ACE) PROGRAM**

OI continues to pursue prosecution of cases under the Department of Justice's Affirmative Civil Enforcement Program. This program involves "fast track" civil prosecution of cases under the provision of the U.S. Code, Title 31, Sections 3729-3733, The Civil False Claims Act. This statute allows the government to recover up to triple damages as well as \$5,000 to \$10,000 for each false claim submitted.

During this reporting period, a total of 22 civil judgements under the ACE program were entered by Federal district courts which will result in the return of \$201,939 to the government when the funds are collected. Often, the Department of Justice is obtaining double damages through these civil false claims prosecutions. The judgements obtained in these cases also provide the agency with an efficient and effective basis to pursue their collection activities. Should the debtor become delinquent, the civil judgement is much more enforceable than payment plans established by the agency.

The ACE Program continues to provide an efficient means to address fraud against agency programs, particularly where the fraud losses are below the financial guidelines for criminal prosecution. It also is an effective way to return fraud losses to the RRB's trust funds and create a deterrent against future fraud.

## **REPRESENTATIVE INVESTIGATIONS**

### **Retirement Benefit Cases**

RRB retirement fraud typically involves the theft and fraudulent cashing of U.S. Treasury checks, or the illicit conversion of U.S. Treasury electronic fund transfers, by someone other than the authorized RRB annuitant. During this reporting period, OI obtained 10 convictions for retirement fraud and recovered \$134,056. Defendants received 28 1/2 years probation and 14 months imprisonment, and were ordered to pay \$250,247 in restitution. OI also achieved three civil judgements in retirement fraud cases which will return \$73,763 to the RRB trust funds.

Examples of recent retirement cases include:

- OI opened this case based upon a computer death match with the State of Massachusetts which identified an RRB annuitant as deceased. Further investigation indicated that, although the annuitant had died on August 25, 1989, the RRB continued to issue checks totaling \$88,044 until November 1994. The checks were mailed to the annuitant's home and were subsequently deposited into a joint checking account with his wife. An analysis of the microfiche records of the financial institution indicated that the retirement pension checks were negotiated through the joint account and contained the alleged signature of the annuitant.

The annuitant's wife plead guilty and, on August 4, 1997, was sentenced to four years probation, five months incarceration with a judicial recommendation that she serve this time in a half-way house, supervised release of 36 months (with five months in home confinement), and ordered to pay full

restitution of \$88,444, less the \$12,444 reclaimed from the financial institution.

On her 60th birthday, the defendant will become eligible to receive RRB spousal annuity benefits. However, she has agreed that any spousal benefits will be used to pay any outstanding funds owed to the RRB until her obligation is satisfied.

- Another computer death match with the State of Maryland identified an RRB annuitant as deceased. The RRB had previously issued numerous inquiries to the annuitant but received no response. Benefits were terminated when an OI special agent confirmed that the individual had died on May 21, 1991. Bank records revealed that a relative of the annuitant had illegally received and cashed 24 U.S. Treasury checks totaling \$21,338 between June 1991 and May 1993. The RRB ordered a reclamation in which \$8,120 were recovered.

In April 1997, a judgement was entered in a criminal case against the subject in the Prince Georges County Circuit Court. The subject was ordered to make full restitution to the RRB in the amount \$13,218. In addition, a sentence of incarceration was suspended pending five years of supervised probation,

- OI initiated an investigation when an annuitant's mail was returned to the RRB as undeliverable. Special agents determined that, although the woman had died in August 1991, the RRB had received no notification and continued to issue benefit checks. In fact, a niece of the annuitant, acting as the annuitant, had sent two letters to the RRB requesting missing annuity checks. U.S. Treasury checks issued after the annuitant's death were negotiated at a Miami restaurant. An OI Special Agent located the niece based on information received from the business owner. When confronted, the niece and a

friend admitted their illegal actions. On May 16, 1997, they were sentenced to 18 months probation and ordered to pay restitution of \$14,000.

### **Unemployment and Sickness Insurance Cases**

Unemployment Insurance (UI) and Sickness Insurance (SI) benefit fraud involves individuals claiming and receiving UI or SI benefits while working and receiving wages from an employer, in violation of Federal law. The primary source of UI/SI fraud cases remains state computer matching programs that compare RRB beneficiaries with individuals for whom wages have been reported.

During this reporting period, OI obtained 27 convictions for UI and SI fraud. Defendants in these cases received, in the aggregate, 20 1/2 years of probation, were ordered to pay \$84,683 in restitution and \$1,800 in fines, and to perform 390 hours of community service. OI achieved 19 civil judgements which will return \$128,177 to the UI/SI programs.

Examples of typical cases involving individuals fraudulently receiving unemployment or sickness insurance benefits follow.

- OI opened this case based on a referral from the RRB's District Office in St. Paul, Minnesota. The office had received an anonymous telephone call alleging that an RRB unemployment insurance claimant was fully employed. The company employing the individual misreported his wages to show money earned only after benefits had expired. The claimant admitted to making a false statement and was ordered to pay restitution of \$8,770, pay investigative costs of \$1,800 and serve one year under court supervision.



- A computer wage match with the State of Illinois identified individuals who worked and claimed unemployment insurance benefits during the same period from the RRB. OI special agents interviewed one claimant who admitted he worked on 68 days during the same period he collected UI benefits. The subject was placed on two years probation, ordered to pay full restitution of \$2,244 to the RRB, and court costs of \$195.
- A computer wage match with the State of Minnesota identified a claimant of sickness insurance benefits while employed by Pinkerton, Inc. The subject plead guilty to false statements and was sentenced to five years probation and ordered to pay restitution of \$2,285.

### **Disability Cases**

The OIG also conducts fraud investigations relating to the RRB's disability program, which typically involves larger financial amounts and more sophisticated schemes. During this reporting period, OI obtained 3 convictions for disability fraud and defendants in these cases received 10 years probation, were ordered to make \$139,169 in restitution, and to perform 150 hours of community service.

Descriptions of disability cases investigated by OI during this reporting period follow.

- Based on a referral from the agency's District Office in Wichita, Kansas, OI opened an investigation of an RRB disability annuitant who applied for a retirement annuity from the Social Security Administration under a different SSA number. The subject fraudulently obtained a second SSA number to conceal his employment from the RRB.

Investigation revealed that the annuitant was employed at Pittsburgh State University and Wichita State University while receiving a total and permanent disability from the RRB. He had provided the fraudulent number to both universities, and later applied for retirement benefits from SSA. The subject plead guilty and was sentenced to two years probation and ordered to pay full restitution of \$96,483 to the RRB.

The two cases which follow resulted from computer wage matches that compared individuals who received RRB disability benefits and individuals who reported wages.

- A computer wage match in the State of Pennsylvania identified a disability annuitant who had earnings in excess of the maximum wage limitations for disability annuitants for two quarters of 1995. RRB records indicated that the subject had been receiving a monthly RRB disability annuity from July 1991 through September 1996.

Further investigation showed that the subject had earnings that exceeded the restriction limit for each month beginning in June 1995 through September 1996. Reportable wages during this period totalled \$26,020, none of which had been reported to the RRB. As a result, the subject fraudulently received \$18,570 in RRB disability benefits. This individual entered a pre-trial diversion program and will make full restitution under the terms of the agreement.

- This computer wage match in the State of Georgia indicated four different companies reported wages for a disability annuitant. Investigation determined that the annuitant had worked from January 1995 through December 1996 while collecting RRB disability benefits. As a result, the subject fraudulently collected \$24,400 in disability payments from the agency.

**HOTLINE CALLS**

The Office of Inspector General established its Hotline to receive complaints concerning suspected fraud, waste and abuse in RRB programs and operations. The Hotline provides an open line of communication for individuals who desire to report suspected criminal activity, conflict of interest, mismanagement, and waste of RRB funds.

	<b>04/01/97- 09/30/97</b>	<b>FY 1997</b>
<b>Total Contacts (Telephone Calls and Letters)</b>	<b>886</b>	<b>1986</b>
<b>Referred to:</b>		
<b>RRB-OIG, Office of Investigations</b>	<b>87</b>	<b>196</b>
<b>RRB-OIG, Office of Audit</b>	<b>0</b>	<b>1</b>
<b>RRB Bureaus/Offices</b>	<b>635</b>	<b>1236</b>
<b>Other Federal Agencies</b>	<b>32</b>	<b>55</b>
<b>United Health Care Corporation/ Durable Medical Equipment Regional Carriers</b>	<b>27</b>	<b>209</b>
<b>Other (misdirected calls, followup calls to agents and inquiries regarding previous complaints)</b>	<b>105</b>	<b>289</b>
<b>TOTAL</b>	<b>886</b>	<b>1986</b>

## **PART V - REVIEW OF LEGISLATION AND REGULATIONS**

The Inspector General Act requires the Inspector General (IG) to review existing and proposed legislation and regulations relating to the programs and operations of the agency.

On September 29, 1997, a revised regulation pertaining to the finality of decisions under the Railroad Retirement Act became effective. This regulation had been proposed on December 21, 1995 to address the agency's lack of time limits for the reopening of cases. The new regulation, which contains limits for reopening and revising decisions, will favorably impact the administration of the Railroad Retirement Act.

**APPENDIX A****OIG REPORTS ISSUED**

<b>Report No.</b>	<b>Title</b>
97-14	Review of the Data Control Function
97-15	Review of Employment Data Maintenance Suspended Transactions
97-16	Review of the Railroad Retirement Board's Compliance with Electronic Payment Requirements
97-17	The RRB Disability Review Program
97-18	Prepayment Verification Period Pilot Program
97-19	Review of Duplicate Postings of Railroad Compensation
97-20	Review of the Medical Services Contract
97-21	Review of the Railroad Retirement Board's Information Technology Investments
97-22	Review of Overpayments - Social Security Administration Transfer Cases
97-23	Review of the Railroad Retirement Board's Training Program
97-24	Investigative Referrals
97-25	Review of Database Function

## APPENDIX B

INSPECTOR GENERAL ISSUED REPORTS  
WITH QUESTIONED COSTS

	<u>Number</u>	<u>Questioned Costs</u>	<u>Unsupported Costs</u>
A. For which no management decision had been made by April 1, 1997	0	0	0
B. Which were issued from April 1, 1997 through September 30, 1997	0	0	0
Subtotals (A + B)	0	0	0
C. For which a management decision was made from April 1, 1997 through September 30, 1997	0		
(i) dollar value of disallowed costs		0	0
(ii) dollar value of costs not disallowed		0	0
D. For which no management decision has been made by September 30, 1997	0		0
Reports for which no management decision was made within six months of issuance	0		0

**INSPECTOR GENERAL ISSUED REPORTS  
WITH RECOMMENDATIONS THAT  
FUNDS BE PUT TO BETTER USE**

	<u>Number</u>	<u>Dollar Value</u>
A. For which no management decision has been made by April 1, 1997	0	
B. Which were issued from April 1, 1997 through September 30, 1997	0	
Subtotals (A + B)	0	
C. For which a management decision was made from April 1, 1997 through September 30, 1997	0	
(i) dollar value of recommendations that were agreed to by management		0
(ii) dollar value of recommendations that were not agreed to by management		0
D. For which no management decision has been made by September 30, 1997	0	
Reports for which no management decision was made within six months of issuance	0	

## **APPENDIX C - PREVIOUSLY REPORTED SIGNIFICANT RECOMMENDATIONS ON WHICH CORRECTIVE ACTION HAS NOT BEEN COMPLETED**

### **AUDITS OF THE FINANCIAL STATEMENTS FOR FY 1993 (JULY 15, 1994), FY 1994 (JANUARY 13, 1995), FY 1995 (APRIL 23, 1996), AND FY 1996 (JANUARY 10, 1997)**

The RRB is continuing to implement corrective actions to address material weaknesses cited in the audits of the agency's financial statements for fiscal years 1993-1995. These weaknesses were also included in the FY 1996 financial statement audit report.

- (1) Crediting of retirement tax deposits - The RRB continues to work with the Internal Revenue Service and Department of the Treasury to ensure deposits are being properly credited. A new IRS system, the Electronic Federal Tax Payment System, became operational in FY 1997. The target completion date for corrective action is June 1999 to allow for the phase-in of the electronic filing requirement.
- (2) Overall control environment of the agency - Although the RRB has made progress to improve management controls at the agency, critical decisions and actions remain to be completed to fully address the issues in this area. Although the agency is implementing a new organizational structure, auditors cited the current three member Board structure and the high number of operating bureaus as a material control weakness.



- (3) Inaccurate benefit payments - The audits identified inaccurate retirement and survivor benefit payments and noted that the RRB has not resolved the issue of administrative finality. The final rule, published on August 29, 1997, became effective on September 29. Management is formulating plans for implementation.
- (4) Financial Interchange - Auditors also stated that the current timetable for the settlement process for the financial interchange prevents the timely preparation of annual financial statements.

#### Investment Activities

The FY 1996 audit recommended that the Chief Actuary be a non-voting member of the Investment Committee, and that the RRB utilize the services of an investment adviser to assist with investment responsibilities. To date, the Board Members have not made a decision concerning the role of the Chief Actuary. On September 25, 1997, the RRB issued a request for quotation for preparation of quarterly reports of trust fund performance and written recommendations for investment policy and strategy.

## **APPENDIX D - AUDIT REPORTS OVER SIX MONTHS OLD PENDING A MANAGEMENT DECISION**

### **Review of Quality Assurance Activities, Report No. 97-06, January 22, 1997**

As reported in our Semiannual Report for the period ending March 31, 1997, we conducted a review of agency quality assurance activities. The objectives were to determine the extent to which management had assigned quality assurance responsibilities within the agency.

Our report recommended that the Board Members assign each Director the responsibility for quality assurance relative to the functions and activities of their respective offices and eliminate the current Bureau of Quality Assurance organization. We also recommended changes to sampling procedures and that the Board Members implement a quality management program similar to one proposed by a Total Quality Management task force in 1993.

The Director of Administration, the Director of Programs and the Assistants to the Board Members deferred action on the recommendations pending the final organizational structure, the completion of procedures and submission of a quality plan for the Assessment and Training Unit in the Office of Programs. Although the plan was submitted to the Board Members on August 11, 1997, no decision has been made.

The Board Members also agreed to address a quality management program in the context of a partnership council with the employee union. Discussions with the union were halted after union representatives insisted the partnership council include the Board Members or have authority to make binding decisions.

## APPENDIX E - RRB MANAGEMENT REPORTS\*

**MANAGEMENT REPORT ON FINAL ACTION  
ON AUDITS WITH DISALLOWED COSTS  
FOR THE SIX MONTH PERIOD ENDING SEPTEMBER 30, 1997**

	Number of <u>audit reports</u>	Disallowed <u>costs</u>
A. Audit reports, with management decisions, on which final action had not been taken at the beginning of the period.	<u>0</u>	\$ <u>0</u>
B. Audit reports on which management decisions were made during the period.	<u>0</u>	\$ <u>0</u>
C. Total audit reports pending final action during the period. (A + B)	<u>0</u>	\$ <u>0</u>
D. Audit reports on which final action was taken during the period.		
1. Recoveries		
(a) Collections and offsets	<u>0</u>	\$ <u>0</u>
(b) Property	<u>0</u>	\$ <u>0</u>
(c) Other	<u>0</u>	\$ <u>0</u>
2. Write-offs	<u>0</u>	\$ <u>0</u>
3. Total of 1 and 2	<u>0</u>	\$ <u>0</u>
E. Audit reports needing final action at the end of the period (C - D.3)	<u>0</u>	\$ <u>0</u>

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\*The information contained in this section has been provided by RRB management.

**MANAGEMENT REPORT ON FINAL ACTION ON AUDITS  
WITH RECOMMENDATIONS TO PUT FUNDS TO BETTER USE  
FOR THE SIX MONTH PERIOD ENDING SEPTEMBER 30, 1997**

	<u>Number of audit reports</u>	<u>Funds to be put to better use</u>
A. Audit reports, with management decisions, on which final action had not been taken at the beginning of the period.	<u>0</u>	\$ <u>0</u>
B. Audit reports on which management decisions were made during the period.	<u>0</u>	\$ <u>0</u>
C. Total audit reports pending final action during the period. (A + B)	<u>0</u>	\$ <u>0</u>
D. Audit reports on which final action was taken during the period.		
1. Value of recommendations implemented (completed)	<u>0</u>	\$ <u>0</u>
2. Value of recommendations that management concluded should not or could not be implemented (completed)	<u>0</u>	\$ <u>0</u>
3. Total of 1 and 2	<u>0</u>	\$ <u>0</u>
		E. Audit reports needing final action at the end of the period (C - D.3)
<u>0</u>	\$ <u>0</u>	

**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS  
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING  
AS OF SEPTEMBER 30, 1997**

<u>Report</u>	<u>Date</u>	<u>Disallowed Costs</u>	<u>Funds to be put to better use</u>	<u>Reason action has not been completed</u>
Review of Uncollectible Accounts Receivable (87-02)	6/15/87	None	None	The Board Members approved a draft rule (Part 255) addressing this subject on July 16, 1997 and forwarded it for OMB review.
Assessment of Actions Suggested by OMB to Correct Deficiencies in RRB's Information Resources Management Program (93-01)	10/21/92	None	None	A draft Strategic Information Resources Management Plan is pending Board Member approval. The agency's ADP Steering Committee is reviewing a draft Administrative IRM-10 on end-user computing.
Computer Match of RUIA Benefits and Compensation Adjustment Reports (93-20)	8/04/93	None	None	Computer programming changes required to perform the computer match have been deferred pending higher priority work on the Year 2000 project.
Audit of the RRB's FY1993 Financial Statements	7/15/94	None	None	Remaining corrective actions are pending completion and/or review by OIG audit staff.
Audit of the RRB's FY1994 Financial Statements	1/13/95	None	None	Remaining corrective actions are pending completion and/or review by OIG audit staff.
Review Tier 1 and Tier 2 Compensation Differences (95-09)	3/15/95	None	None	All employee information has been received and processed. OIG audit staff are reviewing documentation and a remaining issue.
Review of Selected Separation Allowance Lump Sum Payments (95-11)	4/5/95	None	None	The Board Members adopted and published a final rule (Part 261) which took effect on September 29, 1997. Documentation for remaining items is being developed.

**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS  
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING  
AS OF SEPTEMBER 30, 1997**

<u>Report</u>	<u>Date</u>	<u>Disallowed Costs</u>	<u>Funds to be put to better use</u>	<u>Reason action has not been completed</u>
Review of Selected Annuitants with Service Months After the Annuity Beginning Date (95-13)	4/11/95	None	None	Corrective actions were completed and are being reviewed by OIG audit staff, along with one remaining recommendation.
Review of the Cost Accounting System (95-15)	4/28/95	None	None	Purchase of activity-based cost accounting/management software in September 1997 may make remaining open recommendations obsolete, with added documentation to be submitted by the Bureau of Fiscal Operations.
Review of End-User Computing (96-02)	10/20/95	None	None	The draft Strategic Information Resources Management Plan is pending Board Member approval, and a revised Administrative Circular IRM-10 currently under development will address overall LAN management.
Audit of the RRB's FY1995 Financial Statements	4/28/96	None	None	Remaining corrective actions are pending completion and/or review by the OIG audit staff.
Review of Payments for Consultative Medical Exams (96-10)	7/09/96	None	None	The agency has implemented most recommendations and is recompeting the current contract.
Review of Controls Over Identification of Section 12(o) Receivables (96-12)	8/13/96	None	None	Use of PC-based software to address the remaining recommendation on automated notices/letters went into production on October 1, 1997.

**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS  
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING  
AS OF SEPTEMBER 30, 1997**

<u>Report</u>	<u>Date</u>	<u>Disallowed Costs</u>	<u>Funds to be put to better use</u>	<u>Reason action has not been completed</u>
Review of Service Months Between the Date Rights Relinquished and the Annuity Beginning Date (96-13)	8/23/96	None	None	Agency staff completed reviews of the identified cases. Additional guidance will be issued by April 30, 1998 which may require programming changes.
Review of Initial ClaimsProcessing (96-15)	9/20/96	None	None	Action has been completed on several recommendations, with new processing capabilities or implementation plans under development for remaining ones.
Private Branch Exchange (PBX) System Review (96-20)	9/30/96	None	None	The agency fully documented the RRB Help Line and decided to maintain current PBX responsibilities. Revisions to backup procedures are currently under review.
Review of the Bureau of Fiscal Operations' Debt Recovery Division (96-21)	9/30/96	None	None	The Bureau of Fiscal Operations modified cost accounting codes and is developing more production measures.

## APPENDIX F - REPORTING REQUIREMENTS

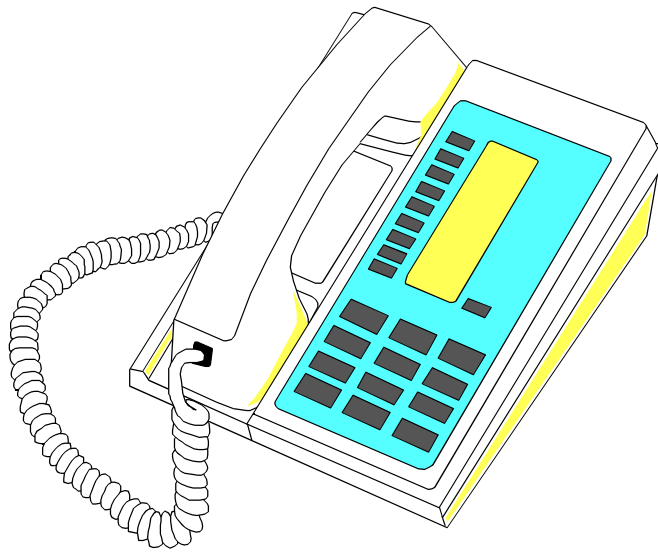
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**REPORT**

**FRAUD, WASTE AND ABUSE**

**RRB - OIG HOTLINE**



**1-800-772-4258**

**or write**

**Office of Investigations  
RRB-OIG  
844 North Rush Street  
Chicago, IL 60611-2092**